

Under the Retailers' Occupation Tax Act, the manufacturing machinery and equipment exemption is available for machinery and equipment used primarily (over 50% of the time) in the manufacturing or assembling of tangible personal property for wholesale or retail sale or lease. See 86 Ill. Adm. Code 130.330. (This is a GIL).

September 27, 1999

Dear Ms. Xxxxx:

This letter is in response to your letter dated August 24, 1999. The nature of your letter and the information you have provided require that we respond with a General Information Letter, which is designed to provide general information, is not a statement of Department policy and is not binding on the Department. See 2 Ill. Adm. Code 1200.120(b) and (c), enclosed.

In your letter, you have stated and made inquiry as follows:

Please provide me with a legal sales tax ruling for the following scenario.

We are a paper bag manufacturer leasing and purchasing clamp trucks. These trucks are used in the manufacturing process to move the extremely large rolls of paper into the production areas. This is the only function that this equipment is used for. Since the trucks are used expressly for the production process, we would like to know if they can be considered non-taxable.

Under the Retailers' Occupation Tax Act, the manufacturing machinery and equipment exemption is available for machinery and equipment used primarily (over 50% of the time) in the manufacturing or assembling of tangible personal property for wholesale or retail sale or lease. See 86 Ill. Adm. Code 130.330, enclosed.

"Manufacturing" is defined as the production of any article of tangible personal property, whether such article is a finished product or an article for use in the process of manufacturing or assembling a different article of tangible personal property, by procedures commonly regarded as manufacturing, which changes some existing material or materials into a material with a different use, form, or name. These changes must result from the process in question and be substantial and significant.

"Machinery" means major mechanical machines or major components of such machines contributing to a manufacturing or assembling process. See Section 130.330(c)(2). "Equipment" includes any independent device or tool separate from any machinery but essential to an integrated manufacturing or assembling process.

See Section 130.330 (c)(3). The exemption also extends to repair and replacement parts as long as the parts are incorporated into machinery and equipment that is exempt under the regulation. The use of machinery or equipment to effect a direct and immediate physical change upon the tangible personal property to be sold will generally be considered to constitute an exempt use under the manufacturing machinery and equipment exemption.

Generally, motor vehicles do not qualify for the exemption. However, equipment such as forklifts may qualify for the exemption if they are an integral part of the production flow. See parts (d)(3)(D) and (d)(4)(C through E) of Section 130.330. Basically, the use of machinery and equipment to convey, handle, or transport tangible personal property to be sold within production stations on production lines or directly between such production stations or buildings within the same plant qualifies for the manufacturing machinery and equipment exemption. See 86 Ill. Adm. Code 130.330(d)(3)(D).

This exemption does not extend, however, to machinery or equipment used to store, convey, handle or transport materials or parts or sub-assemblies prior to their entrance into the production cycle. See Section 130.330(d)(4)(C). Nor does the exemption extend to machinery or equipment used to store, convey, handle or transport finished tangible personal property after the completion of the production cycle. See Section 130.330(d)(4)(D). For example, if forklifts, or other such equipment, are used primarily to unload raw materials and take such materials to the first production station, or if forklifts are used primarily to take the finished product away from the last production station, they will not qualify for the exemption. It is only when forklifts are used primarily to take materials between production stations that the exemption will apply.

I hope this information is helpful. The Department of Revenue maintains a Web site, which can be accessed at [www.revenue.state.il.us](http://www.revenue.state.il.us). If you have further questions related to the Illinois sales tax laws, please contact the Department's Taxpayer Information Division at (217) 782-3336.

If you are not under audit and you wish to obtain a binding Private Letter Ruling regarding your factual situation, please submit all of the information set out in items 1 through 8 of the enclosed copy of Section 1200.110(b).

Very truly yours,

Melanie A. Jarvis  
Associate Counsel

MAJ:msk  
Enc.